

**STATE BOARD OF ACCOUNTS  
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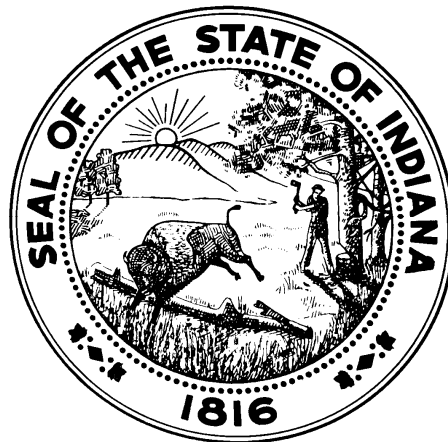
ANNUAL FINANCIAL REPORT

2007

WATER, WASTEWATER, AND ELECTRIC UTILITIES

CITY OF AUBURN

DEKALB COUNTY, INDIANA



**FILED**  
11/12/2008



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials .....	2
Independent Accountant's Report.....	3
Statement of Net Assets .....	4
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements .....	7-17
Required Supplementary Information:	
Schedule of Funding Progress .....	18
Exit Conference .....	19

## OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Patricia M. Miller	01-01-04 to 12-31-11
Mayor	Norman E. Yoder	01-01-04 to 12-31-11
President of the Board of Public Works and Safety	Norman E. Yoder	01-01-04 to 12-31-11
President of the Common Council	David Painter James A. Finchum	01-01-07 to 12-31-07 01-01-08 to 12-31-08
Superintendent of Water Utility	Steve Blaugh	01-01-07 to 12-31-08
Superintendent of Wastewater Utility	David Lochner	01-01-07 to 12-31-08
Superintendent of Electric Utility	Stuart Tuttle	01-01-07 to 12-31-08



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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**INDEPENDENT ACCOUNTANT'S REPORT**

TO: THE OFFICIALS OF THE WATER, WASTEWATER, AND ELECTRIC UTILITIES,  
CITY OF AUBURN, DEKALB COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Water, Wastewater, and Electric Utilities (Utilities), departments of the City of Auburn, as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and performing other procedures we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Water, Wastewater, and Electric Utilities, departments of the City of Auburn, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Auburn as of December 31, 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Water, Wastewater, and Electric Utilities, as of December 31, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not examine the information and express no opinion on it.

The Utilities have not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

October 21, 2008

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
STATEMENT OF NET ASSETS  
December 31, 2007

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Current assets:			
Cash and cash equivalents	\$ 875,665	\$ 2,033,786	\$ 5,229,766
Accounts receivable (net of allowance)	75,387	105,784	299,621
Other receivable	-	45,000	-
Inventories	72,833	-	629,141
Prepaid items	6,307	11,758	11,583
Total current assets	<u>1,030,192</u>	<u>2,196,328</u>	<u>6,170,111</u>
Noncurrent assets:			
Restricted cash, cash equivalents:			
Depreciation	1,420,409	1,712,720	2,158,051
Bond and interest	8,188	78,859	720
Debt service reserve	542,085	765,720	-
Construction	368,853	-	-
Customer deposits	47,573	22,045	71,706
Cash reserve	-	20,700	109,317
Improvement	-	1,045,198	-
Total restricted assets	<u>2,387,108</u>	<u>3,645,242</u>	<u>2,339,794</u>
Deferred charges	<u>73,794</u>	<u>36,077</u>	<u>254,611</u>
Capital assets:			
Land, improvements to land and construction in progress	1,080,253	808,032	5,024,872
Other capital assets (net of accumulated depreciation)	<u>13,784,665</u>	<u>31,019,153</u>	<u>19,580,888</u>
Total capital assets	<u>14,864,918</u>	<u>31,827,185</u>	<u>24,605,760</u>
Total noncurrent assets	<u>17,325,820</u>	<u>35,508,504</u>	<u>27,200,165</u>
Total assets	<u>18,356,012</u>	<u>37,704,832</u>	<u>33,370,276</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	25,658	40,556	1,629,920
Taxes payable	7,623	-	30,017
Compensated absences	25,811	30,458	51,125
Current liabilities payable from restricted assets:			
Accounts payable	-	23,794	155,703
Customer deposits	47,573	22,045	71,706
Revenue bonds payable	240,000	-	-
Capital leases payable	1,322	1,322	1,322
State revolving fund loan payable	-	555,000	-
Total current liabilities	<u>347,987</u>	<u>673,175</u>	<u>1,939,793</u>
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized discounts)	3,127,173	-	-
State revolving fund loan payable	-	5,195,000	-
Total noncurrent liabilities	<u>3,127,173</u>	<u>5,195,000</u>	<u>-</u>
Total liabilities	<u>3,475,160</u>	<u>5,868,175</u>	<u>1,939,793</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	11,570,217	26,111,940	24,604,438
Restricted for debt service	550,273	844,579	720
Restricted for other purposes	1,789,262	2,754,824	2,111,665
Unrestricted	<u>971,100</u>	<u>2,125,314</u>	<u>4,713,660</u>
Total net assets	<u>\$ 14,880,852</u>	<u>\$ 31,836,657</u>	<u>\$ 31,430,483</u>

The notes to the financial statements are an integral part of this statement.

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2007

	Water Utility	Wastewater Utility	Electric Utility
Operating revenues:			
Metered water revenue:			
Residential	\$ 1,092,801	\$ -	\$ -
Commercial	437,447	-	-
Industrial	576,190	-	-
Residential sales	-	-	3,122,115
Commercial and industrial sales	-	-	19,286,611
Public street and highway lighting	-	-	149,167
Fire protection revenue	128,264	-	-
Penalties	12,001	40,568	49,356
Flat rate revenues	-	50,231	-
Measured revenue:			
Residential	-	1,290,031	-
Commercial	-	1,451,082	-
Network service fees	-	-	150,170
Other	2,961	549,441	44,547
Total operating revenues	<u>2,249,664</u>	<u>3,381,353</u>	<u>22,801,966</u>
Operating expenses:			
Source of supply and expense - operations and maintenance	77,061	-	-
Water treatment expense - operations and maintenance	396,307	-	-
Transmission and distribution	577,207	-	-
Collection system - operations and maintenance	-	287,422	-
Pumping - operations and maintenance	-	201,054	-
Treatment and disposal - operations and maintenance	-	1,104,618	-
Operations and maintenance	-	-	1,805,469
Customer accounts	99,886	123,896	92,803
Administration and general	555,337	698,868	643,160
Purchased power	-	-	18,608,565
Insurance expense	30,996	48,147	59,560
Network service	-	-	252,664
Depreciation	263,695	599,129	997,640
Miscellaneous expenses	57,980	-	348,912
Total operating expenses	<u>2,058,468</u>	<u>3,063,134</u>	<u>22,808,773</u>
Operating income (loss)	<u>191,196</u>	<u>318,219</u>	<u>(6,807)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	148,935	254,766	362,682
Miscellaneous revenue	55,397	9,376	151,660
Interest expense	(195,752)	(209,426)	(241)
Amortization of deferred charges	(11,420)	(3,797)	(8,712)
Total nonoperating revenues (expenses)	<u>(2,840)</u>	<u>50,919</u>	<u>505,389</u>
Income before contributions	188,356	369,138	498,582
Capital contributions	55,780	335,147	-
Change in net assets	244,136	704,285	498,582
Total net assets - beginning	<u>14,636,716</u>	<u>31,132,372</u>	<u>30,931,901</u>
Total net assets - ending	<u>\$ 14,880,852</u>	<u>\$ 31,836,657</u>	<u>\$ 31,430,483</u>

The notes to the financial statements are an integral part of this statement.

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Year Ended December 31, 2007

	Water Utility	Wastewater Utility	Electric Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 2,254,311	\$ 3,337,793	\$ 22,812,555
Payments to suppliers and contractors	(895,022)	(1,221,408)	(20,247,195)
Payments to employees	(909,946)	(1,269,672)	(1,494,093)
Other receipts	55,397	9,376	214,888
Net cash provided by operating activities	<u>504,740</u>	<u>856,089</u>	<u>1,286,155</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(171,649)	(165,842)	(2,677,608)
Principal paid on capital debt	(230,000)	(535,000)	-
Interest paid on capital debt	(191,285)	(209,185)	-
Principal paid on capital lease	(2,472)	(2,472)	(2,472)
Interest paid on capital lease	(241)	(241)	(241)
Net cash used by capital and related financing activities	<u>(595,647)</u>	<u>(912,740)</u>	<u>(2,680,321)</u>
Cash flows from investing activities:			
Interest received	<u>148,935</u>	<u>254,766</u>	<u>362,682</u>
Net increase (decrease) in cash and cash equivalents	58,028	198,115	(1,031,484)
Cash and cash equivalents, January 1	<u>3,204,745</u>	<u>5,480,913</u>	<u>8,601,044</u>
Cash and cash equivalents, December 31	<u>\$ 3,262,773</u>	<u>\$ 5,679,028</u>	<u>\$ 7,569,560</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 191,196	\$ 318,219	\$ (6,807)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	263,695	599,129	997,640
Other nonoperating revenue	55,397	9,376	151,660
(Increase) decrease in assets:			
Accounts receivable	5,333	7,134	75,822
Other receivables	-	(45,000)	-
Allowance for uncollectible accounts	(686)	(5,694)	(2,005)
Inventories	(2,910)	-	8,388
Prepaid items	1,754	914	2,020
Increase (decrease) in liabilities:			
Accounts payable	(10,919)	(24,660)	53,280
Taxes payable	1,516	-	833
Compensated absence payable	10	(3,091)	4,964
Customer deposits	354	(238)	360
Total adjustments	<u>313,544</u>	<u>537,870</u>	<u>1,292,962</u>
Net cash provided by operating activities	<u>\$ 504,740</u>	<u>\$ 856,089</u>	<u>\$ 1,286,155</u>
Noncash investing, capital and financing activities:			
Contributions of capital assets	\$ 55,780	\$ 335,147	\$ -
Purchase of equipment on account	-	23,794	155,703
Capital asset trade-ins	-	13,340	-

The notes to the financial statements are an integral part of this statement.



WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Auburn (City). The Utilities, whose operations are controlled by the City, represent all of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the Utilities are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utilities to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the Statement of Net Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 5,000	Composite	1.5% to 3.0%
Improvements other than buildings	5,000	Composite	1.5% to 3.0%
Machinery and equipment	5,000	Composite	1.5% to 3.0%
Transportation equipment	5,000	Composite	1.5% to 3.0%

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 6 days per year. Sick leave does not accumulate from year to year.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Utility employees earn personal leave at the rate of 6 days per year. Personal leave does not accumulate from year to year.

Vacation leave is accrued when incurred.

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The City does not have a deposit policy for custodial credit risk. At December 31, 2007, the City had deposit balances in the amount of \$32,158,752. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 735,068	\$ -	\$ -	\$ 735,068
Construction in progress	240,826	104,359	-	345,185
Total capital assets, not being depreciated	975,894	104,359	-	1,080,253
Capital assets, being depreciated:				
Buildings	3,525,707	5,675	-	3,531,382
Improvements other than buildings	12,564,672	55,895	-	12,620,567
Machinery and equipment	1,224,852	61,500	-	1,286,352
Transportation equipment	264,415	-	-	264,415
Totals	17,579,646	123,070	-	17,702,716
Less accumulated depreciation	(3,654,356)	(263,695)	-	(3,918,051)
Total capital assets, being depreciated, net	13,925,290	(140,625)	-	13,784,665
Total Water Utility capital assets, net	\$ 14,901,184	\$ (36,266)	\$ -	\$ 14,864,918

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Wastewater Utility:</b>				
Capital assets, not being depreciated:				
Land	\$ 377,757	\$ -	\$ -	\$ 377,757
Construction in progress	393,758	36,517	-	430,275
	<u>771,515</u>	<u>36,517</u>	<u>-</u>	<u>808,032</u>
Total capital assets, not being depreciated				
	<u>771,515</u>	<u>36,517</u>	<u>-</u>	<u>808,032</u>
Capital assets, being depreciated:				
Buildings	6,274,660	14,078	-	6,288,738
Improvements other than buildings	23,000,946	384,830	-	23,385,776
Machinery and equipment	10,360,208	44,649	-	10,404,857
Transportation equipment	306,119	28,435	13,340	321,214
	<u>39,941,933</u>	<u>471,992</u>	<u>13,340</u>	<u>40,400,585</u>
Totals				
	<u>39,941,933</u>	<u>471,992</u>	<u>13,340</u>	<u>40,400,585</u>
Less accumulated depreciation	(8,784,097)	(599,129)	(1,794)	(9,381,432)
	<u>31,157,836</u>	<u>(127,137)</u>	<u>11,546</u>	<u>31,019,153</u>
Total Wastewater Utility capital assets, net	\$ 31,929,351	\$ (90,620)	\$ 11,546	\$ 31,827,185
	<u>\$ 31,929,351</u>	<u>\$ (90,620)</u>	<u>\$ 11,546</u>	<u>\$ 31,827,185</u>
<b>Electric Utility:</b>				
Capital assets, not being depreciated:				
Land	\$ 701,589	\$ -	\$ -	\$ 701,589
Construction in progress	2,093,501	2,229,782	-	4,323,283
	<u>2,795,090</u>	<u>2,229,782</u>	<u>-</u>	<u>5,024,872</u>
Total capital assets, not being depreciated				
	<u>2,795,090</u>	<u>2,229,782</u>	<u>-</u>	<u>5,024,872</u>
Capital assets, being depreciated:				
Buildings	3,043,262	-	-	3,043,262
Improvements other than buildings	26,214,267	36,532	-	26,250,799
Machinery and equipment	2,510,325	43,673	-	2,553,998
Transportation equipment	1,486,803	88,113	-	1,574,916
	<u>33,254,657</u>	<u>168,318</u>	<u>-</u>	<u>33,422,975</u>
Totals				
	<u>33,254,657</u>	<u>168,318</u>	<u>-</u>	<u>33,422,975</u>
Less accumulated depreciation	(12,844,447)	(997,640)	-	(13,842,087)
	<u>20,410,210</u>	<u>(829,322)</u>	<u>-</u>	<u>19,580,888</u>
Total Electric Utility capital assets, net	\$ 23,205,300	\$ 1,400,460	\$ -	\$ 24,605,760
	<u>\$ 23,205,300</u>	<u>\$ 1,400,460</u>	<u>\$ -</u>	<u>\$ 24,605,760</u>

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Depreciation expense was charged to functions/programs of the Utilities as follows:

Water	\$ 263,695
Wastewater	599,129
Electric	<u>997,640</u>
Total depreciation expense	<u>\$ 1,860,464</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31, 2007
Water Utility:	
Aerator	\$ 304,733
Morning Star	37,652
Fulton Tower	<u>2,800</u>
Total Water Utility	<u>\$ 345,185</u>
Wastewater Utility:	
Storm Water separation	\$ 417,552
North Clark storm sewer	<u>12,723</u>
Total Wastewater Utility	<u>\$ 430,275</u>
Electric Utility:	
Grandstaff	\$ 1,250,627
Auburn Essential Services Phase II	<u>3,072,656</u>
Total Electric Utility	<u>\$ 4,323,283</u>

D. Capital Lease

The Utilities have entered into a capital lease for copiers. Future minimum lease payments and present values of the net minimum lease payments under this capital lease as of December 31, 2007, are as follows:

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Water Utility	Wastewater Utility	Electric Utility
2008	\$ 1,356	\$ 1,356	\$ 1,356
Less amount representing interest	<u>34</u>	<u>34</u>	<u>34</u>
Present value of net minimum lease payments	<u>\$ 1,322</u>	<u>\$ 1,322</u>	<u>\$ 1,322</u>

Assets acquired through capital leases still in effect are as follows:

	Water Utility	Wastewater Utility	Electric Utility
Machinery and equipment	<u>\$ 9,087</u>	<u>\$ 9,087</u>	<u>\$ 9,087</u>

E Long-Term Liabilities

1. Revenue Bonds

The Utilities issue bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount	Unamortized Discount	Revenue Bonds
Water Utility:				
\$1,000,000 1993 Waterworks revenue bonds	5.00%	\$ 50,000	\$ 867	\$ 49,133
\$4,200,000 2000 Waterworks revenue bonds	5.00% to 5.65%	<u>3,355,000</u>	<u>36,960</u>	<u>3,318,040</u>
Totals		<u>\$ 3,405,000</u>	<u>\$ 37,827</u>	<u>\$ 3,367,173</u>

Revenue bonds debt service requirements to maturity are as follows:

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Year Ended December 31	Water Utility	
	Principal	Interest
2008	\$ 240,000	\$ 179,678
2009	250,000	167,553
2010	265,000	154,927
2011	275,000	141,350
2012	290,000	126,858
2013-2017	1,690,000	380,095
2018	395,000	16,809
Totals	<u>\$ 3,405,000</u>	<u>\$ 1,167,270</u>

2. State Revolving Fund Loan

Under the terms of the State Revolving Fund Loan (SRF), revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were set aside to finance the construction of improvements to the Wastewater Utility. Funds were loaned to the Utility as construction costs were incurred. At the completion of construction, the outstanding principal balance of \$6,600,000 was amortized over a period of 18 years. Annual debt service requirements to maturity for the loan are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2008	\$ 555,000	\$ 190,825
2009	575,000	171,785
2010	595,000	152,065
2011	615,000	131,665
2012	635,000	110,585
2013-2016	2,775,000	219,440
Totals	<u>\$ 5,750,000</u>	<u>\$ 976,365</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 3,635,000	\$ -	\$ 230,000	\$ 3,405,000	\$ 240,000
Capital lease	<u>3,794</u>	<u>-</u>	<u>2,472</u>	<u>1,322</u>	<u>1,322</u>
Total long-term liabilities	<u>\$ 3,638,794</u>	<u>\$ -</u>	<u>\$ 232,472</u>	<u>\$ 3,406,322</u>	<u>\$ 241,322</u>
Wastewater Utility:					
Loan payable	\$ 6,285,000	\$ -	\$ 535,000	\$ 5,750,000	\$ 555,000
Capital lease	<u>3,794</u>	<u>-</u>	<u>2,472</u>	<u>1,322</u>	<u>1,322</u>
Total long-term liabilities	<u>\$ 6,288,794</u>	<u>\$ -</u>	<u>\$ 537,472</u>	<u>\$ 5,751,322</u>	<u>\$ 556,322</u>
Electric Utility:					
Capital lease	<u>\$ 3,794</u>	<u>\$ -</u>	<u>\$ 2,472</u>	<u>\$ 1,322</u>	<u>\$ 1,322</u>

F. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	Water Utility	Wastewater Utility	Electric Utility
Customer deposits	\$ 47,573	\$ 22,045	\$ 71,706
Revenue bond and covenant accounts	919,126	844,579	720
Capital asset replacement accounts	1,420,409	2,757,918	2,158,051
Reserve accounts	<u>-</u>	<u>20,700</u>	<u>109,317</u>
Total restricted assets	<u>\$ 2,387,108</u>	<u>\$ 3,645,242</u>	<u>\$ 2,339,794</u>

III. Other Information

A. Risk Management

The City, including the Utilities, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.



WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Group Health Insurance

The City, including the Utilities, has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents (excluding postemployment benefits). The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$70,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund that accounts for payroll. Interfund premiums are based primarily on the percentage of each fund's current number of employees.

Workers' Compensation

During 2003, the City, including the Utilities, joined the Public Employers' Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers' compensation claims. The Utilities pay an annual premium to the risk pool for its workers' compensation coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on January 11, 2000. The Utility has 4,897 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on July 2, 2002. The Utility has 4,871 customers.

3. Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on July 28, 1990. The Utility has 6,181 customers.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Utility authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole and is not presented as an asset/liability of the proprietary funds.

Actuarial Information for the Above Plan

	<u>PERF</u>
Annual required contribution	\$ 248,758
Interest on net pension obligation	3,891
Adjustment to annual required contribution	<u>(4,435)</u>
Annual pension cost	248,214
Contributions made	<u>246,295</u>
Increase in net pension obligation	1,919
Net pension obligation, beginning of year	<u>53,675</u>
Net pension obligation, end of year	<u><u>\$ 55,594</u></u>

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	<u>PERF</u>
Contribution rates:	
City and Utilities	7.5%
Plan members	3%
Actuarial valuation date	07-01-07
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	30 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-05	\$ 205,268	106%	\$ 5,840
	06-30-06	274,148	83%	53,675
	06-30-07	248,214	99%	55,594

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-05	\$ 3,956,104	\$ 5,286,752	\$ (1,330,648)	75%	\$ 3,485,147	(38%)
07-01-06	4,594,343	5,391,422	(797,079)	85%	3,443,069	(23%)
07-01-07	5,230,809	6,135,155	(904,346)	85%	3,658,202	(25%)

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
EXIT CONFERENCE

The contents of this report were discussed on October 21, 2008, with Patricia M. Miller, Clerk-Treasurer; and Norman E. Yoder, Mayor. Our audit disclosed no material items that warrant comment at this time.